

Discussion Paper

Accounting Standards Board

Agriculture

December 2015

**COMMENTS TO THE AcSB MUST BE RECEIVED BY
MAY 19, 2016**

A PDF [response form](#) has been posted with this document to assist you in submitting your comments to the AcSB. Alternatively, you may send comments via email (in Word format), to: ed.accounting@cpacanada.ca addressed to:

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This Discussion Paper is issued by the Accounting Standards Board (AcSB). The AcSB is composed of persons knowledgeable in the preparation and use of financial statements with backgrounds in business, public practice and academe. All members serve as individuals and not as representatives of their employers or organizations.

Individuals and organizations are invited to send written comments on the Discussion Paper.

Comments are most helpful if they clearly explain the issues they raise and suggest a specific course of action supported by reasoning. All comments received by the AcSB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

Overview

Why is the AcSB undertaking this project?

The Accounting Standards Board (AcSB) has been informed that, as a result of a lack of specific authoritative guidance, there is diversity in accounting by private enterprises for biological assets (i.e., living animals or plants) and agricultural produce (i.e., the harvested product of the enterprise's biological assets). This diversity is causing difficulties for stakeholders in the agricultural sector.

During the development of accounting standards for private enterprises, the AcSB considered developing authoritative guidance on agriculture. The AcSB concluded that given the length of time needed to develop such guidance and the more pressing need for accounting standards for private enterprises in the short term, a project on this topic would be deferred until accounting standards for private enterprises in Part II of the CPA Canada Handbook – Accounting were issued and in use for a period of time.

The agricultural sector is an important part of the Canadian economy and spans a wide range of activities. Statistics Canada reported in 2011 that the agricultural and agri-food sectors accounted for 8 percent of Canadian GDP, at \$101.1 billion, and that there were 205,730 farm businesses.¹

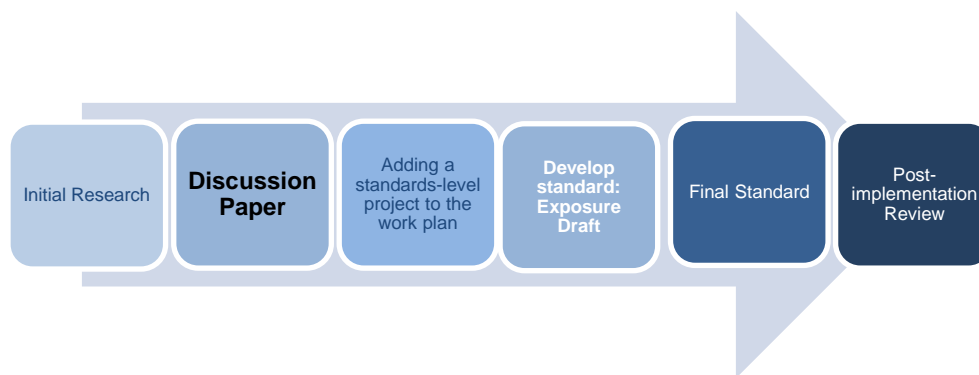
What is the purpose of this Discussion Paper?

This Discussion Paper aims to obtain broad input from stakeholders, in particular, those involved in the agricultural sector. This input will assist the AcSB in deciding whether to develop authoritative guidance, either by developing a new standard or amending existing standards, on accounting for biological assets and agricultural produce by private enterprises and, if so, the issues to be addressed and how they could be addressed.

What are the next steps in this project?

The AcSB will consider the input received in response to this Discussion Paper and decide whether to continue this project to develop authoritative guidance. If the AcSB decides to proceed, then it will develop an exposure draft of proposed changes to accounting standards for private enterprises for public comment, in accordance with its [due process](#). The following illustrates where a Discussion Paper fits within the stages of due process with consultation occurring at each stage:

¹ 2011 Statistics Canada data was the latest data available at the time of development of this Discussion Paper. Note that these figures include business activity conducted by both public and private enterprises. However, the AcSB understands that the vast majority of agricultural enterprises in Canada are privately held.



After the comment period ends, the AcSB considers all of the comments received and reviews the issues, including the preliminary views, in light of the input gathered.

Development of this Discussion Paper

The AcSB conducted a significant amount of research on:

- (a) the financial reporting environment in the agricultural sector;
- (b) issues that need to be addressed; and
- (c) stakeholder perspectives on the issues.

This research was conducted by holding discussions across the country with a range of preparers, practitioners and creditors involved in a variety of agricultural activities. The results of this research form an integral part of this Discussion Paper.

Based on research conducted and consultations undertaken to date, this Discussion Paper:

- (a) identifies the key issues that the AcSB thinks should be addressed;
- (b) discusses the advantages and disadvantages of the different approaches to addressing these issues; and
- (c) provides the AcSB's preliminary view for each issue.

Preliminary views

The Discussion Paper provides the AcSB's preliminary view for each issue. These views are based on information gathered from stakeholder consultations held to date and may change following additional input.

Comments requested

This Discussion Paper is designed to obtain further input from stakeholders. While the initial research aspect of this project has been completed for purposes of understanding the issues and stakeholder perspectives, the AcSB welcomes further perspectives and input on all aspects of this Discussion Paper.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs. Any comments that express disagreement with the preliminary views in the Discussion Paper should clearly explain the issue and include a suggested alternative, supported by specific reasoning.

While the AcSB welcomes comments on all aspects of this Discussion Paper, it particularly welcomes comments on the following:

1. Do you agree that authoritative guidance with respect to accounting for biological assets and agricultural produce by private enterprises should be developed (see Overview and paragraphs 1-5)? Why or why not?
2. Do you agree with the discussion noted in paragraph 3(c) (i.e., lenders are the predominant external users of financial statements in the agricultural sector)? Why or why not? Are there other significant users of financial statements in this sector and do their financial reporting needs differ from those of lenders?
3. Do you agree with the proposed scope (for example, what is included and excluded) and definitions (see paragraphs 11-14)? Why or why not? If not, what changes would you suggest and why?
4. Do you agree that the issues noted in paragraph 15 should not be addressed in this project? Why or why not? If you think that these issues should be addressed, how would you recommend doing so?
5. Do you agree with the AcSB's preliminary view that a biological asset should be recognized when the definition of an asset and recognition criteria in FINANCIAL STATEMENT CONCEPTS, Section 1000, are met (see paragraphs 17-22)? Why or why not?
6. Do you agree with the AcSB's preliminary view that a policy choice should not be provided in respect of the measurement of biological assets and agricultural produce (see paragraph 51)? Why or why not?
7. Do you agree with the AcSB's preliminary view that unharvested crops should be measured at cost (see paragraphs 52-60)? Why or why not? How would you determine cost?
8.
 - (a) Do you agree with the AcSB's preliminary view that agricultural produce should be measured at current value when certain conditions are met and at cost when those conditions are not met (see paragraphs 61-70)? Why or why not?
 - (b) What conditions should be met to measure agricultural produce at current value?
 - (c) How would you determine current value?

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9. (a) Do you agree with the AcSB's preliminary view that animals held for sale should be measured at current value when certain conditions are met and at cost when those conditions are not met (see paragraphs 71-78)? Why or why not?
 - (b) What conditions should be met to measure animals held for sale at current value?
 - (c) How would you determine current value?
 10. (a) Do you agree with the AcSB's preliminary view that bearer animals should be measured at cost (see paragraphs 79-92)? Why or why not?
 - (b) How would you determine cost?
 - (c) In what circumstances should amortization be recognized and over what period of time?
 11. What challenges arise in accounting for biological assets should the use of the animal change over its life (for example, when animals shift from being bearer to held for sale)?
 12. Do you agree with the AcSB's preliminary view that bearer plants should be measured at cost (see paragraphs 93-99)? Why or why not? How would you determine cost?
 13. Do you agree with the AcSB's preliminary view that impairment should be assessed under the models used for current and long-lived assets depending on the type of asset (see paragraphs 100-106)? Why or why not?
 14. Do you agree with the AcSB's preliminary view that presentation should be determined by the guidance in CURRENT ASSETS AND CURRENT LIABILITIES, Section 1510 (see paragraphs 107-111)? Why or why not? Should specific guidance on this issue be developed?
 15. Do you agree with the proposed disclosure requirements set out in paragraph 115? Why or why not? Are there any additional disclosures, including those noted in paragraph 116, that should be considered?
 16. Are there any other issues that are not addressed in this Discussion Paper? If so, what are they and how should they be addressed?
 17. Do you agree with the effects noted in paragraphs 120-121? Why or why not? If not, what other effects should be identified and why?

For your convenience, a PDF [response form](#) has been posted with this document. You can save the form both during and after its completion for future reference. Alternatively, written comments may be submitted by email (Word format preferred) to:

ed.accounting@cpacanada.ca

Agriculture

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SUMMARY OF RESEARCH FINDINGS

- 1 Prior to commencing deliberations on this topic, the AcSB undertook research to:
 - (a) confirm that there is a need for authoritative guidance;
 - (b) obtain initial input in terms of how the guidance should be developed;
 - (c) learn what the issues are and about existing accounting practice; and
 - (d) seek stakeholder views in terms of how the issues could be addressed.
- 2 Discussions were held across Canada, including stakeholders with experience in a broad range of agricultural activities, to obtain an understanding of the issues, current practice and stakeholder perspectives.¹ The following table summarizes the number of stakeholders consulted by geographic region and stakeholder type:

Stakeholder Type	Geographic Region ²				
	West	Central	East	National	Total
Creditors	19	3	11	12	45
Preparers	10	25	7	3	45
Practitioners	70	9	31	30	140
Total	99	37	49	45	230
Percentage	43%	16%	21%	20%	100%

Creditors are bank lenders and other secured creditors, such as lessors. The users that were consulted had a range of roles from senior policy officials to “front-line” officers who have direct relationships with the entity.

Preparers are management and business owners who are responsible for the financial statements.

Practitioners are individuals who provide assurance or advisory services (for examples, a public accountant).

¹ In addition to holding conference calls, locations visited included Abbotsford, Edmonton, Halifax, Kelowna, Lethbridge, Montreal, Quebec City, Regina and Winnipeg.

² “West” includes Manitoba and provinces further west, “Central” includes Ontario, and “East” includes Quebec and provinces further east. “National” denotes outreach occurring in one region (often Central) but with groups comprised of stakeholders from across Canada.

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- 3 As a result of discussions with stakeholders, the AcSB's general observations are as follows:
- (a) *Need for guidance* — In conducting research on this topic, stakeholders were asked for input on the need for authoritative guidance. The response was nearly unanimous support for the development of authoritative guidance. Demand for guidance is based on a need for financial statements that provide relevant information that is reliable and comparable between enterprises. The current lack of authoritative guidance is resulting in diversity in practice, which is causing difficulty for many stakeholders. Creditors noted that diversity causes issues with inter-entity comparability and creditors need to specialize in order to understand and conduct business in the agricultural sector. Some preparers noted that diversity makes inter-entity comparisons, such as industry benchmarks, difficult. Public practitioners noted that a lack of authoritative guidance requires them to make judgments with respect to how to account for different biological assets. The few stakeholders who thought that authoritative guidance is not needed noted that they did not see any diversity in practice that was causing significant issues.
 - (b) *Changing environment* — Three major changes were noted by stakeholders:
 - (i) *Consolidation of operations* — Many stakeholders noted that there is a substantial amount of consolidation going on in many agricultural sectors, resulting in some enterprises becoming very large. The 2011 Census of Agriculture notes that the number of farms has been declining steadily since 1941 and the average size of Canadian farms is increasing, reflecting a trend towards consolidation. Discussions with creditors indicate that consolidation of agricultural businesses is resulting in increased demand for external capital, which in turn is leading to increased demand for GAAP financial statements.
 - (ii) *Enterprises entering into more complex transactions* — Many stakeholders also noted a trend towards enterprises entering into more complex arrangements. For example, producers are increasingly buying futures contracts and other derivatives.
 - (iii) *Advances in technology* — Several stakeholders noted that advances in technology are allowing many producers to easily capture information, such as the quantity of seed or fertilizer spread, or the quantity of grain harvested.
 - (c) *Financial statement users* — Based on stakeholder consultations held to date, the AcSB understands that creditors (for example, bank lenders and
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lessors) are the predominant external users of financial statements in the agricultural sector. Some stakeholders noted that government agencies review financial statements for various purposes. The AcSB notes that, like the Canada Revenue Agency, these government agencies are in a position to demand whatever financial information they wish. Accordingly, other than when providing resources to the enterprise, they would not be considered to be external users for purposes of general purpose financial reporting. Input from stakeholders consulted to date indicates that venture capital or private equity investors are extremely rare in this sector, and seem to be primarily involved in post-harvest activities (i.e., when the asset ceases to be a biological asset).

- (d) *Reliance on financial statements* — As is the case with private enterprises in other sectors, creditors in the agricultural sector do not rely on financial statements in making lending decisions until the amount of credit extended passes a certain dollar threshold. The specific credit threshold varies by lending institution. However, in the agricultural sector, in general, the thresholds can be significantly higher in comparison to private enterprises in other sectors. For example, for a private enterprise not in the agricultural sector, a lender might require GAAP financial statements when a loan exceeds \$1-2 million. For an enterprise in the agricultural sector, that threshold can be \$5 million and in some cases was noted by stakeholders to be significantly higher, with a threshold of \$10 million. Based on input from creditors, the AcSB understands that this difference in lending practice is, in part, due to many agricultural enterprises having significant underlying capital in their business. The result of these lending thresholds is that a smaller number of agricultural enterprises are applying GAAP, as compared to other private enterprises. However, the AcSB recognizes the merits of consistent measurement methodology regardless of whether a lender requests a notice to reader, review or audit.
- (e) *Current use of financial statements* — Creditors' analysis of the financial statements typically includes assessing an enterprise's cash flow, working capital and debt to equity. Creditors perform comparative analysis between enterprises undertaking similar activities and also between enterprises in the broader agricultural sector. Creditors are also interested in information in respect of risk (for example, acreage under cultivation, expected yield, historical yield, and qualitative characteristics in respect of biological assets). Some practitioners noted that lending covenants are often based on current value of biological assets.

- (f) *Measurement approaches* — The two main measurement approaches in practice are current value and cost. A few stakeholders noted use of insured value for certain biological assets, specifically annual crops. The following table provides a high-level summary of current practice:

Asset	Stakeholder Group			Overall
	Creditors	Preparers	Practitioners	Majority Apply/Use
Unharvested crops (for example, corn, timber, nursery stock)				
	Significant support for use of historical cost. Creditors noted unharvested crops have little value.	Majority support historical cost. Some support for insured value and current value. Noted that models used to determine current value are complex.	Significant support for historical cost. Some use of insured value for annual crops. Agreed that determination of current value can be onerous.	Cost
Agricultural produce (for example, grain, fruit, eggs, wool)				
	Acceptance of use of net realizable value. Some question why these inventories are not measured on the same basis as other inventories.	Majority support net realizable value.	General view is that net realizable value provides the most relevant information. Net realizable value can be determined with relatively little effort.	Net realizable value
Animals held for sale (for example, beef cattle, chickens, pigs)				
	Mixed views with respect to measurement. Support for both cost and net realizable value.	Mixed views with respect to immature animals with support for both cost and net realizable value. Majority measure animals that are ready for market at net realizable value.	Support for both cost and net realizable value. Many expressed concern that application of a cost method would be onerous.	Cost and net realizable value
Bearer animals (for example, dairy cattle, beef cattle)				
	General view is that productive biological assets should be measured at cost, consistent with other capital assets.	In certain industries majority supported cost. In other industries majority supported net realizable value.	Support for both cost and net realizable value. Some noted that historical cost can be applied without undue cost and effort. Others noted that cost was difficult to apply.	Cost and net realizable value
Bearer plants (for example, fruit trees, vines)				
	General view is that productive biological assets should be measured at cost, consistent with other capital assets.	Majority supported cost.	Support for cost.	Cost

Deciding on a measurement basis for agricultural produce, animals held for sale and bearer animals are the more controversial aspects of this project.

- 4 The diversity in practice noted in paragraph 3(a) has existed for some time. Since 1986, four U.S. and Canadian study groups have examined financial reporting and accounting issues with respect to the agricultural sector. The most recent effort in Canada resulted in a series of eight booklets, each tailored to a specific industry. These booklets set out non-authoritative guidance on how to determine cost by type of asset and were published by CPA Canada (formerly CICA)³ and the Farm Management Canada (formerly Canadian Farm Business Management Council) beginning in 1998. They note diversity in practice as a significant issue; one of the goals of these publications was to help reduce this diversity and increase comparability across enterprises. The research undertaken during this current project suggests that the CPA Canada/Farm Management Canada⁴ guidance has not been used in many parts of the country.
- 5 In general, changes to accounting standards for private enterprises are considered when there is a significant benefit associated with doing so. The AcSB thinks that the diversity in practice noted in paragraph 3(a) demonstrates that authoritative guidance on the accounting for biological assets and agricultural produce is needed. However, the AcSB would like to confirm that there is a need for authoritative guidance.

Question 1: Do you agree that authoritative guidance with respect to accounting for biological assets and agricultural produce by private enterprises should be developed? Why or why not?

Question 2: Do you agree with the discussion noted in paragraph 3(c) (i.e., lenders are the predominant external users of financial statements in the agricultural sector)? Why or why not? Are there other significant users of financial statements in this sector and do their financial reporting needs differ from those of lenders?

CURRENT ACCOUNTING REQUIREMENTS

Canadian requirements

- 6 INVENTORIES, Section 3031, and PROPERTY, PLANT AND EQUIPMENT, Section 3061, use cost as the basis of measurement. However, Section 3031, includes the following exception for agricultural inventories:

.04 This Section does not apply to the measurement of inventories:

- (a) held by producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the

³ This publication was originally issued by a CPA Canada legacy body.

⁴ Copies of the CPA Canada/Farm Management Canada publications can be found on the [project page](#) under Related Documents & Information.

extent that they are measured at net realizable value in accordance with well-established practices in those industries; when such inventories are measured at net realizable value, changes in that value are recognized in net income in the period of the change;

...

(c) of living animals and plants (biological assets) and the harvested product of the entity's biological assets (agricultural produce). This Section does apply to products that are the result of processing after harvest such as processed foods, thread and lumber.

.05 The inventories referred to in paragraph 3031.04(a) are measured at net realizable value at certain stages of production. For example, this occurs when agricultural crops have been harvested or minerals have been extracted and sale is assured under a forward contract or a government guarantee, or when an active market exists and there is a negligible risk of failure to sell. These inventories are excluded from only the measurement requirements of this Section.

- 7 The exception in Section 3031 is consistent with the related standard in International Financial Reporting Standards (IFRSs) in Part I of the CPA Handbook – Accounting, specifically IAS 2 *Inventories*. This exception was brought into Canadian GAAP in 2004, under the pre-changeover standards, when Section 3031 was adopted to converge with IAS 2.⁵ In developing Section 3031, the AcSB investigated which industries currently measure their inventories on a basis other than cost, noting that some agricultural inventories are currently measured at fair value or a related measure such as net realizable value. That is, the exception in Section 3031 is a codification of existing industry practice rather than the result of a past examination of stakeholder needs. [Appendix B](#) contains extracts from Sections 3031 and 3061.
- 8 A cost approach to accounting for inventories results in historical cost being presented on the balance sheet and information in respect of profitability being presented in the income statement (by recognition of cost of goods sold in the same period as the revenue related to the sale of the inventory). A current value approach to accounting for inventories results in current value being presented on the balance sheet and changes in value being recorded in the income statement. To contrast the two approaches (assuming no impairment), a cost approach would result in no profit margin on a particular item of inventory being recorded until such time as the risks and rewards of ownership are transferred (i.e., at the time that revenue is recognized). A current value approach results in

⁵ The convergence of Section 3031 and IAS 2 was under the previous AcSB strategy for publicly accountable enterprises of convergence with a single set of globally accepted, high-quality international accounting standards.

increases or decreases in income as the value changes throughout the production cycle and until the point of sale, with little to no income at the time of sale.

- 9 A cost approach to accounting for property, plant and equipment results in historical cost being presented on the balance sheet and the recognition of amortization over the useful life of the asset. Amortization is a process of allocation as opposed to valuation, and generally results in a consistent effect on income over the useful life of the asset. The result of applying a current value approach to property, plant and equipment depends on the future value of the asset. If the value of the asset declines as it is utilized, the result, as compared to a cost approach, would ultimately be the same; however, period-to-period differences would occur depending on how the asset's value changes over time relative to the amount of amortization under a cost approach. On the other hand, if the value of the asset is appreciating, increases in value would be reflected in income over time, prior to any realization of cash flows associated with these increases (i.e., sale of the asset). As noted above, a current value approach results in current value on the balance sheet with increases and decreases in value being reported in income.

International requirements

- 10 The AcSB considered the requirements in IFRSs and U.S. GAAP. [Appendix C](#) and [Appendix D](#) contain relevant extracts from these requirements in effect on January 1, 2016. The following table provides a high-level summary, by major category of asset, of the requirements:

Asset	IFRSs	U.S. GAAP
Unharvested crops	Fair value less costs to sell, except when fair value cannot be measured reliably	Cost except when it is not practicable
Agricultural produce	At the point of harvest at fair value less costs to sell; after harvest at cost or net realizable value if in accordance with established practice under IAS 2 <i>Inventories</i>	At the point of harvest at cost; after harvest at cost or at sales price less estimated costs of disposal, if conditions are met
Animals held for sale	Fair value less costs to sell, except when fair value cannot be measured reliably	Developing animals held for sale at cost; mature animals held for sale at cost or at sales price less estimated costs of disposal, if conditions are met
Bearer animals	Fair value less costs to sell, except when fair value cannot be measured reliably	Cost
Bearer plants	Cost initially and subsequently either using a cost or revaluation model under IAS 16 <i>Property, Plant and Equipment</i>	Cost

Measurements exclude impairment considerations (for example, lower of cost or market).

SCOPE AND DEFINITIONS

- 11 The AcSB examined the scope and definitions of International Accounting Standard (IAS) 41 *Agriculture* and U.S. FASB Accounting Standards Codification Topic 905, *Agriculture*. The AcSB agreed that IAS 41 provides a useful starting point for the consideration of the issues. The agricultural activities addressed by this project are similar to those addressed by IAS 41.
- 12 The scope and definitions were discussed with stakeholders as part of the research discussions. Stakeholders did not express any issues with, and supported, using the scope and definitions in IAS 41. Many stakeholders, particularly practitioners, observed that having a similar scope and definitions would reduce confusion among stakeholders.
- 13 The scope of IAS 41 includes agricultural produce at the point of harvest whereas the AcSB has proposed to include all agricultural produce in the scope of this project. Bearer plants, included in IAS 16 *Property, Plant and Equipment*, are also within the scope of this project. Accordingly, the proposed scope and definitions for purposes of considering the issues set out in this Discussion Paper are as follows:

Scope

The guidance would be applied to account for:

- (a) biological assets involved in agricultural activities; and
- (b) agricultural produce that is the output of an enterprise's agricultural activity.

Definitions

Agricultural activity is the management by an enterprise of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.

Agricultural produce is the harvested product of the enterprise's biological assets.

A **bearer animal** is a living animal that:

- (a) is held for use in the production or supply of biological assets or agricultural produce;
- (b) is expected to bear biological assets or produce for more than one period; and
- (c) is not held for sale.

A **bearer plant** is a living plant that:

- (a) is used in the production or supply of agricultural produce;

- (b) is expected to bear produce for more than one period; and
- (c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

A **biological asset** is a living animal or plant.

Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.

Harvest is the detachment of agricultural produce from a biological asset or the cessation of a biological asset's life processes.

- 14 To be within the scope of the project, the biological asset must be involved in agricultural activities and agricultural produce must be the output of an enterprise's agricultural activity. As a result, purchased agricultural produce would not be within the scope of the project but would remain within the scope of Section 3031. For example, purchases by a farm, flour mill or a pet shop would be outside the scope. Also, products that are the result of processing after harvest are currently within the scope of Section 3031 and would not be in the scope of the project. The following table (from paragraph 4 of IAS 41) demonstrates the distinction with only the first two columns in the scope of the project:

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Sheep	Wool	Yarn, carpet
Trees in a timber plantation	Felled trees	Logs, lumber
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Cotton plants	Harvested cotton	Thread, clothing
Sugarcane	Harvested cane	Sugar
Tobacco plants	Picked leaves	Cured tobacco
Tea bushes	Picked leaves	Tea
Grape vines	Picked grapes	Wine
Fruit trees	Picked fruit	Processed fruit
Oil palms	Picked fruit	Palm oil
Rubber trees	Harvested latex	Rubber products

Question 3: Do you agree with the proposed scope (for example, what is included and excluded) and definitions? Why or why not? If not, what changes would you suggest and why?

Issues outside the scope of the project

- 15 Discussions with stakeholders also noted two other issues that the AcSB does not plan on addressing in this project. Stakeholders are asked to provide input on the need to address these issues. When developing its future work plan for Part II, the AcSB will consider this feedback in the context of other potential new projects. Should the AcSB decide to commence a project to address either or both of these issues further research would be required.
- (a) *Government grants* — The issue is that government assistance related to capital expenditures are accounted for in different ways (i.e., deducted from the related capital asset or deferred and amortized on the same basis as the related depreciable assets), which can negatively affect comparability. GOVERNMENT ASSISTANCE, Section 3800, permits an accounting policy choice for grants related to the acquisition of capital assets. The AcSB has not heard of any unique issues regarding government assistance in the agricultural sector or issues that are not addressed by Section 3800.
 - (b) *Land and quotas* — A number of stakeholders expressed a view that land and quotas (such as production quotas that exist in the poultry and dairy industries) should be measured at current value. The argument is that cost does not provide useful information to financial statement users. In many cases, cost reflects information that is not indicative of current value. With respect to land, most creditors noted that they have internal assessment processes to arrive at a value for lending purposes. Current values for quotas are readily available as they are traded on provincial exchanges. Creditors noted that they generally adjust the financial statements for land and quotas to reflect current value, and would do so regardless of whether the financial statements reflected current value as they would rather make their own determinations of value. The issue of measuring land and other intangible assets is not restricted to the agricultural sector; some stakeholders in other industries have expressed a need for a current value approach.

Question 4: Do you agree that the issues noted in paragraph 15 should not be addressed in this project? Why or why not? If you think that these issues should be addressed, how would you recommend doing so?

ANALYSIS OF ISSUES

- 16 This section addresses the recognition, measurement, presentation and disclosure issues that were raised as a result of discussions with stakeholders.

Recognition of a biological asset

- 17 Recognition is the process of including an item in the financial statements of an enterprise. FINANCIAL STATEMENT CONCEPTS, paragraph 1000.24 defines assets as “economic resources controlled by an entity as a result of past transactions and from which future economic benefits may be obtained.” Paragraph 1000.39 states that assets are recognized when “the item has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and for items involving obtaining or giving up future economic benefits, it is probable that such benefits will be obtained or given up.” These criteria are similar to those in both IFRSs and U.S. GAAP.
- 18 Stakeholders generally agreed that an asset should be recognized when it is purchased or created (for example, when a fruit tree is purchased or when a cow is born).
- 19 Discussions with stakeholders to date noted that, in almost all cases, there is no diversity in practice in terms of how to apply the recognition criteria in Section 1000. However, a few stakeholders noted that some enterprises are not recognizing planted crops as an asset. These stakeholders noted that these enterprises are generally smaller operations.
- 20 The vast majority of stakeholders consulted to date agreed that a planted crop meets the definition of a biological asset when the seeds (or seedlings) are planted. Creditors generally noted that if they see a client has expensed planted crops, they will attempt to adjust the statements to recognize an asset.
- 21 Some stakeholders think that a planted crop should not be recognized as an asset (i.e., the costs should be expensed) on the basis of consistency with taxation rules and the fact that some preparers currently do not prepare accrual based financial statements. Some stakeholders think that users of financial statements may find expensing costs incurred in a period to be more useful and support this approach by cost/benefit considerations.
- 22 The AcSB’s preliminary view is that a biological asset should be recognized when the asset definition and recognition criteria are met. In the case of an annual crop, the AcSB’s preliminary view is that a planted crop should be recognized as a biological asset because it meets the definition of an asset and the recognition criteria (set out in paragraphs 1000.24 and 1000.39, respectively). For an annual crop, an asset could exist prior to planting (for example, at the time the seed and other inputs are purchased).

Question 5: Do you agree with the AcSB's preliminary view that a biological asset should be recognized when the definition of an asset and recognition criteria in Section 1000 are met? Why or why not?

Measurement

- 23 Input gathered to date indicates that there are two main measurement bases used in practice, cost and current value, with some noting use of insured value for certain biological assets (specifically unharvested crops).
- 24 Except when discussing current practice, this Discussion Paper uses the term "current value" to include all market-based measurements, including fair value and net realizable value. Should authoritative guidance be developed regarding accounting for biological assets and agricultural produce, and current value be used as a measurement basis, the AcSB will deliberate what specific type of current value measure should be used as part of the next phase of the project. Respondents are asked to comment on what specific type of current value measure should be used.
- 25 The AcSB has identified four alternative approaches to measurement:
- (a) current value;
 - (b) current value when certain conditions are met or cost when those conditions are not met;
 - (c) insured value; and
 - (d) historical cost.
- 26 The advantages and disadvantages under each approach are often similar regardless of the type of asset. This section first summarizes the advantages and disadvantages that the AcSB heard from stakeholders during the research phase of this project and then discusses the more specific feedback received about each type of asset (unharvested crops, agricultural produce, animals held for sale, bearer animals and bearer plants).

Current value

- 27 A current value measurement is useful to creditors because it provides an indication of the future cash inflows that could be realized from sale of the asset. Current value reflects the biological transformation that the assets undergo. Several stakeholders think that current value provides the most relevant information. Creditors noted that if there is an active market, there is benefit in knowing the current value of the assets.

- 28 Public practitioners that support current value do so based on difficulties with respect to determining cost (see paragraphs 48-50) and a view that the use of current value appears to be meeting lender needs.
- 29 For many biological assets and agricultural produce, current value is readily determinable without significant cost and effort because there are active markets. The producer generally intends to sell these assets into highly liquid markets and can sell them at any time (i.e., there is little risk of not selling). The current value can be determined without significant cost or effort because the producer:
- (a) has a wide range of sources to look to for determining the current value;
 - (b) is able to estimate losses due to shrinkage;
 - (c) is able to determine the quality because there are natural indicators of differing quality; and
 - (d) can look to sales information that has occurred subsequent to the fiscal period to confirm the quality.
- 30 When there is no active market, some practitioners have developed models to determine the current value. These practitioners noted that they have not heard any negative feedback from creditors as a result of measuring certain assets at current value.
- 31 However, some creditors expressed concern over the lack of consistency in determining current value and the quality of those values. These creditors noted that they do not wish to rely on current values determined by the enterprise. Some creditors stated that in the absence of an active market, current value would need to be determined by a reliable third party valuator to be of significant value.
- 32 Some creditors noted that when they see biological assets measured at current value, they attempt to adjust the financial statements to reflect cost using industry benchmarks and guidelines. These creditors were opposed to any current value measurement on the basis that it is inconsistent with how inventories are measured in other (non-agricultural) industries. However, some stakeholders have noted that biological assets undergo a transformation that is different from a traditional manufacturing process.
- 33 Some stakeholders noted that determining current value can result in significant cost and effort. When an active market exists, determining current value is not necessarily simple because information on quantity and quality is needed and there can be variation in the characteristics and value of individual assets. Obtaining this information is possible (for example, the herd could be graded) but at an expense.

- 34 When an active market does not exist, estimating current value can be expensive and difficult because a model (for example, a discounted cash flow model) is needed. The models include a number of inputs (for example, market price expectations, expected quantity and quality) that require assumptions and estimates. These inputs may be difficult and expensive to estimate and audit, particularly for assets that have a very long lifespan such as timber. Further, small changes in the underlying assumptions can result in significant changes to the calculated current value. In these situations, many practitioners noted that there are simply too many variables to objectively determine current value with any significant degree of certainty. As a result, most preparers thought that the effort of determining current value when an active market does not exist is not justified. Preparers also noted that under a current value approach it is not readily apparent how the business is performing because very little to no margin is recorded when assets that are held for sale are actually sold. Practitioners noted little support for recognizing income as a result of increased value in biological assets or agricultural produce because the risks and rewards of ownership rest with the enterprise and there are no related cash inflows.
- 35 Several stakeholders, including creditors, noted market prices can be volatile for commodities. A current value approach results in reporting market price fluctuations in the performance of the enterprise.

Current value when certain conditions are met

- 36 Some think that a current value approach seems to only be feasible, based on cost/benefit considerations, when market prices can be readily determined. Under this approach, an enterprise would measure a biological asset or agricultural produce at current value when certain conditions were met. If those conditions were not met, an enterprise would measure the biological asset or agricultural produce at cost.
- 37 Stakeholders that support this approach note that it achieves the advantages of a current value approach when possible (see paragraphs 27-29) while addressing the practical concerns noted under a cost approach (see paragraphs 48-50).
- 38 However, by its very nature, this approach results in a mixed measurement approach. That is, some biological assets and agricultural produce would be measured at cost and others (if they qualify) would be measured at current value. As a result, some stakeholders suggest that this approach would not fully address the “diversity in practice” issue. A mixed measurement approach could result in financial statements that would make comparability between enterprises involved in different activities more difficult. Also, a mixed measurement approach would result in different measurement bases being used in the same financial statements (for example, when an enterprise has several different

types of biological assets), which may affect comparability and understandability of financial information.

Insured value

- 39 The arguments for measurement based on insured value are that:
- (a) insured value represents the minimum amount of cash flows that will be received in respect of the asset;
 - (b) many creditors find such information useful; and
 - (c) insured value is easier to determine than cost.
- 40 The majority of creditors noted that they find information about insurance policies and insured value to be useful but have access to this information already. Some creditors observed that insured value would be an appropriate measure if the asset is impaired and insured value will be realized.
- 41 However, the majority of creditors did not support the use of insured value as a measurement basis because a producer does not thrive based on making insurance claims. Creditors want a measurement basis that reflects the business and producers are not in the business of collecting insurance proceeds.
- 42 In addition, insured value could result in issues with respect to comparability because:
- (a) the terms and conditions of insurance policies vary depending on the type of policy;
 - (b) not all assets are insurable; and
 - (c) not all enterprises use insurance.
- 43 Further, using insured value to measure biological assets or agricultural produce acts as a proxy for the minimum value that would be received in the event that the criteria in the policy are reached. There is uncertainty whether the event will occur.

Historical cost

- 44 Supporters of historical cost note that cost is the measurement basis used for other types of inventories. Creditors would benefit from increased comparability within the agricultural sector.
- 45 Some creditors noted that they find value in cost information because this approach allows them to evaluate profitability, as well as make comparisons of financial ratios such as inventory turnover and working capital. A few preparers noted that cost information is used for purposes of managing the business as it is needed in order to evaluate profitability.

- 46 Those who support a cost approach noted that standard costs are available for some biological assets and when standard costs are not available, calculating cost is not onerous. Several practitioners noted that the illustrations and templates included in the CPA Canada/Farm Management Canada publications show that the determination of cost can be applied with a reasonable amount of cost and effort. Further, some creditors and practitioners noted that producers know or have a very good idea of what the cost of production is and, accordingly, determining cost should not take much effort.
- 47 Some stakeholders noted that the effort associated with determining cost is proportional to how detailed or granular one is required to be. A question asked by both practitioners and preparers was whether, under a cost approach, an enterprise needs to track usage of machinery to specific tasks. Those that currently use a cost approach noted that Section 3031 states that cost includes a systematic allocation of fixed and variable production overheads. Accordingly, labour, machinery and overhead costs could be allocated on a systematic basis, similar to processes used in other industries. Stakeholders also noted that Section 3031 currently allows use of standard cost methodologies (see paragraph 3031.20), and this method is widely used in certain agricultural sectors. The CPA Canada/Farm Management Canada publications illustrate how the cost approach can be applied with a reasonable financial burden and effort, recommending a modified direct cost method. Several stakeholders noted that such a modified direct cost method may not be consistent with existing Section 3031 and, accordingly, use of such a method may require modification of that Section.
- 48 However, a significant number of stakeholders noted that cost may be difficult to apply for some biological assets and agricultural produce. These stakeholders suggested that the practical aspects of a cost approach need to be considered. Further, if an active market exists for the specific asset, a current value approach would likely require less effort than a cost approach.
- 49 From a practical perspective, problems under a cost approach include:
- (a) allocation of indirect costs to specific inventories (i.e., different crops);
 - (b) holding inventory over a period of time (i.e., having to track cost over time);
and
 - (c) increased complexity for operations with multiple lines of business (i.e., in a “mixed” operation that uses harvested crops as feed for other operations within the business, a cost approach requires the transfer of costs to determine the cost of other assets).
- 50 While the CPA Canada/Farm Management Canada publications illustrate how cost may be determined, they have been available for some time and the market

has not adopted a cost approach for some biological assets and agricultural produce. Accordingly, to use a cost approach, the majority of enterprises would need to develop cost accounting systems for these assets. Some stakeholders noted that producers often are not sophisticated when it comes to accounting and, in many cases, their accounting function is limited as they do not employ a professional accountant. Some stakeholders noted that as most agricultural enterprises do not have the current capacity to develop these systems, adopting a cost approach would require significant effort in education to understand and effort to apply a cost approach, particularly in the first year.

Policy choice

- 51 A few stakeholders suggested that a policy choice should be given (i.e., an enterprise should have an accounting policy choice to measure categories of biological assets and agricultural produce using either a cost or current value approach). The AcSB notes that this approach would essentially represent a continuation of the status quo. Based on the stakeholders views regarding the need to eliminate diversity in practice and increase comparability (see paragraphs 3-5), the AcSB's preliminary view is that a policy choice should not be provided.

Question 6: Do you agree with the AcSB's preliminary view that a policy choice should not be provided in respect of the measurement of biological assets and agricultural produce? Why or why not?

Unharvested crops

- 52 Unharvested crops include annual and long-term crops. Examples of annual crops are corn, grapes, and apples. Examples of long-term crops include timber and nursery stock that take several years to reach the point of being ready for resale.
- 53 Many preparers noted that measurement of annual crops was not an issue because they grow crops that are usually harvested by the end of the financial reporting period. However, it is possible for harvest to be delayed, in which case, measurement is an issue.

Current practice

- 54 The majority of stakeholders consulted to date noted that current practice is to use cost for:
- (a) initial measurement (i.e., paragraph 1000.48 states: "... at the amount of cash or cash equivalents paid or the fair value ascribed to the transaction when it took place"); and
 - (b) subsequent measurement (i.e., up to the point of harvest).

- 55 However, some noted that they record unharvested crops at a current or insured value. Practice varies in terms of how current value is calculated. Some use models that incorporate a number of variables; others use the sales price for the harvested crop after the balance sheet date and prorate a value for the unharvested crops.

Discussion

- 56 There is no active market for unharvested crops. Some practitioners have developed models to determine the current value of unharvested crops and noted that they have not heard any negative feedback from creditors as a result of measuring unharvested crops at current value.
- 57 Some practitioners noted that as maturity and harvest approaches a better idea of the quantity and quality is possible and, accordingly, a basis of measurement other than cost seems to provide better information.
- 58 However, creditors consulted supported a cost approach noting that they do not find current value information for unharvested crops to be of significant benefit due to the high degree of uncertainty regarding the ultimate yield. Many creditors noted that they focus on input costs and when they receive financial statements showing unharvested crops measured at current value they adjust the financial statements back to an estimate of cost.
- 59 In addition, the majority of practitioners and many preparers supported the use of cost as a measurement basis for unharvested crops. Many preparers noted that cost can be determined with some financial burden and effort while current value cannot be readily determined without incurring significant financial burden or effort because there are no active markets for unharvested crops.

Preliminary view

- 60 The AcSB's preliminary view is that unharvested crops should be measured at cost. This view is based on the following considerations:
- (a) Cost provides creditors with better information because this measurement basis reflects profit earned when these assets are sold and provides a link to cash flows for these assets compared to the alternatives.
 - (b) Most stakeholders noted that this approach can be applied with a reasonable financial burden and effort.
 - (c) There is no active market for unharvested crops.

Question 7: Do you agree with the AcSB's preliminary view that unharvested crops should be measured at cost? Why or why not? How would you determine cost?

Agricultural produce

- 61 Agricultural produce includes grain held for sale or use by the enterprise, fruit, eggs and wool.

Current practice

- 62 The majority of preparers, practitioners and creditors noted that the current exception in Section 3031, allowing agricultural producers to value certain agricultural produce at a net realizable value at certain stages of production is widely used and should continue.
- 63 Several enterprises in the fruit and vegetable production business noted that to establish cost they usually start with a selling price and work backwards to estimate cost based on historical experience.

Discussion

- 64 A current value approach has been widely used for some time with little user objection. Many creditors noted acceptance of the measurement of agricultural produce at current value. A few creditors noted that while this measurement is not what they would necessarily prefer, they have become accustomed to seeing qualifying inventories carried at current value.
- 65 The majority of preparers, practitioners and creditors noted that current value is generally readily determinable without significant effort because there are active markets for most agricultural produce. The producer has a wide range of sources to look to for determining the current prices (for example, local grain elevators, the radio, trade papers, the Chicago Board of Trade).
- 66 Some note that harvested crops are analogous to equity instruments traded in an active market. In making this analogy, several practitioners noted that agricultural producers in this sector are “price takers” and are similar to an individual investor that holds equity instruments. Some noted that the market for crops is so deep that it is possible to price damaged commodities. Further, for crops that do not have an active market (for example, corn silage), it is possible to look to sources such as the AgriStability program, or comparable sales prices from third parties such as a feedlot, to determine current value.
- 67 A minority of preparers, practitioners and creditors preferred the use of cost for agricultural produce noting that these assets are no different than any other types of inventories and determining cost is not onerous. For perishable agricultural produce, the difference between cost and current value is generally not material because a low quantity is held at the reporting date (i.e., most agricultural produce will have been sold by year-end).
- 68 Stakeholders also noted that if cost is used prior to the point of harvest, it is not clear why the measurement basis should change on harvest. However, while

cost may be able to be determined as an extension of determining the cost of unharvested crops, as some entities do not account for crops until they are harvested, determining cost will require more effort than determining current value. These stakeholders noted that any additional work caused by a change in standards (i.e., adoption of a cost approach) may be considered onerous.

Preliminary view

69 The AcSB's preliminary view is that agricultural produce should be measured at current value when certain conditions are met and at cost when those conditions are not met. This view is based on the following considerations:

- (a) Current value, when readily available, provides creditors with better information about these assets because this measurement basis provides more relevant information as it better reflects the biological transformation that the agricultural produce has undergone and has more predictive value of expected future cash flows.
- (b) Current value, when readily available, can be applied with less financial burden than a cost approach.
- (c) Comparability would be achieved because similar assets would be measured on the same basis.

70 The specific conditions required to use current value will be deliberated during the next phase of the project, assuming that:

- (a) the project moves forward; and
- (b) this approach is used to measure agricultural produce.

Question 8:

- (a) Do you agree with the AcSB's preliminary view that agricultural produce should be measured at current value when certain conditions are met and at cost when those conditions are not met? Why or why not?
- (b) What conditions should be met to measure agricultural produce at current value?
- (c) How would you determine current value?

Animals held for sale

71 Animals held for sale include developing and mature animals that are expected to be sold.

Current practice

- 72 The majority of enterprises measure mature animals that are held for sale at net realizable value based on the exception contained in Section 3031. However, practice is mixed with respect to developing animals with some measuring these animals at cost and others at net realizable value.

Discussion

- 73 A current value approach has been widely used for some time with little user objection. Some creditors stated that they find current value information of interest when an animal or group of animals is ready for sale (i.e., at the point when the enterprise generally sells the animal). Prior to such time they would prefer a cost approach because the asset is not ready for sale (i.e., while the animals develop). Others noted that they find current value of interest for all animals held for sale.
- 74 The majority of preparers, practitioners and creditors noted that current value is generally readily determinable without significant effort because there are active markets for animals held for sale. The producer has a wide range of sources to look to for determining the current value (for example, prices from daily auctions can be accessed through organizations such as Agricultural Financial Services Corporation and Canfax).
- 75 Quality can be estimated because regular cattle (i.e., cattle that are not of show quality or do not have special genetic attributes) are fairly homogeneous in terms of quality and value, although there can be variation of price in comparing purebred and non-purebred animals. Quantity (i.e., weight) can be estimated in a feedlot based on average weight gain per day as calculated by comparing the average weight when the animal is purchased and the average weight when sold. Also, in some cases, animals are weighed on a test basis at year-end.
- 76 A minority of preparers, practitioners and creditors preferred the use of cost for animals held for sale because these assets are no different than any other types of inventories and determining cost is not onerous. A few practitioners noted that the amount of effort depends on the methodology used. For example, a standard cost method requires significantly less effort than allocating specific costs to individual animals. However, a significant number of stakeholders noted that cost may be difficult to apply, specifically for animals born on the farm.

Preliminary view

- 77 The AcSB's preliminary view is that animals held for sale should be measured at current value when certain conditions are met and at cost when those conditions are not met. This view is based on the following considerations:
- (a) Current value, when readily available, provides creditors better information about these assets because this measurement basis provides more relevant information as it better reflects the biological transformation that the animal has undergone and has more predictive value of expected future cash flows.
 - (b) Current value, when readily available, can be applied with less financial burden than a cost approach.
 - (c) Comparability would be achieved because similar assets would be measured on the same basis.
- 78 The specific conditions required to use current value will be deliberated during the next phase of the project, assuming:
- (a) the project moves forward; and
 - (b) this approach is used to measure animals held for sale.

Question 9:

- (a) Do you agree with the AcSB's preliminary view that animals held for sale should be measured at current value when certain conditions are met and at cost when those conditions are not met? Why or why not?
- (b) What conditions should be met to measure animals held for sale at current value?
- (c) How would you determine current value?

Bearer animals

- 79 Bearer animals include animals used to produce milk and animals that are being developed to become "bearer" (i.e., an immature cow prior to being productive in nature or becoming part of the reproductive herd).

Current practice

- 80 There is significant diversity in practice regarding measurement of bearer animals:
- (a) In the dairy industry, the majority use "cost" as derived from standard cost information published by industry groups. However, some measure these assets at current value.
 - (b) In the beef industry, the majority use current value approach (i.e., the exception noted in Section 3031).

- 81 A few practitioners noted a practice of treating cattle on a similar basis as an indefinite lived intangible (i.e., keep the book value constant). This approach is based on the assumption that the overall group of animals regenerates itself and continues to have the same fundamental characteristics over time.
- 82 Some practitioners noted that enterprises do not wish to report the period-to-period change in value associated with measuring breeding herds at current value in income because this approach would distort operating income. These practitioners noted a practice of recording the periodic adjustments directly in retained earnings.

Discussion

- 83 Many stakeholders, including creditors, noted that current value is not relevant because the enterprise does not have any intention of disposing of the assets. The enterprise could not immediately realize the cash flows implied by current value while staying in the business of producing assets with the bearer animals.
- 84 The majority of creditors noted that they treat bearer animals (such as a milking herd) as property, plant and equipment. Most practitioners consulted also noted that these assets are conceptually similar to property, plant and equipment, and current value only makes sense in a liquidation scenario.
- 85 Creditors stated that they focus on the value of the output as opposed to the value of the underlying productive assets. As a result, creditors noted that when they encounter these types of assets reported as inventory and measured at current value, they adjust the value and classification using standard cost information as developed by industry associations.
- 86 Standard cost information is published for certain industries; for example, several provincial dairy boards publish the standard cost to bring a calf to the point of production. Others noted that determining a standard cost for an individual enterprise is not difficult and the examples in the CPA Canada/Farm Management Canada publications (specifically, the dairy and beef guidelines) illustrate how this can be done.
- 87 However, stakeholders who supported use of a current value approach for bearer animals noted that the alternative, a cost approach, is complex. Issues with using cost include allocation of costs to self-generated assets (for example, replacement cows that will become bearer animals), as well as the amount of calculations and allocations that are needed to determine cost. Granularity regarding determination of cost was raised as a concern. Some stakeholders noted that using cost as a measurement basis could be difficult if one were trying to identify specific costs to individual animals. At the extreme, a cost approach would presumably require tracking the amount of food eaten by each

animal. However, Section 3061 does not require this sort of detailed identification.

- 88 Some noted that there is variation within the dairy industry in terms of how long the animals are used for productive purposes as some producers milk an animal for two years, while others for 20 years. It was noted that this variation in practice could affect the amount of effort that is required to use a cost approach.
- 89 A cost approach is further complicated by the need to record amortization. However, some note that amortization would not be relevant because the salvage value of the animals exceeds the cost.
- 90 Supporters of a current value approach think a current value measurement is appropriate since there generally is a market for bearer animals. Further, it is not clear when born, whether the animal will become part of the productive herd or held for sale. Some animals, such as cattle, are “harvestable” at any given point of time. Many practitioners noted that information in respect of cost of beef cattle does not provide significant information to a lender.

Preliminary view

- 91 The AcSB’s preliminary view is that bearer animals should be measured at cost. This view is based on the following considerations:
- (a) Creditors generally agreed that a cost approach provides better information in respect of cash flows, both from a capital expenditure perspective and understanding the operating income of an enterprise.
 - (b) Stakeholders noted that existing illustrative materials in respect of how cost might be applied to bearer animals can be applied with a reasonable amount of cost and effort.
- 92 The AcSB acknowledges that any preliminary view will be controversial because this area has the greatest diversity in practice. The AcSB encourages respondents to provide additional detail on the issues discussed above and issues faced in practice in accounting for bearer animals so that the AcSB can better understand the complexities involved.

Question 10:

- (a) Do you agree with the AcSB’s preliminary view that bearer animals should be measured at cost? Why or why not?
- (b) How would you determine cost?
- (c) In what circumstances should amortization be recognized and over what period of time?

Question 11: What challenges arise in accounting for biological assets should the use of the animal change over its life (for example, when animals shift from being bearer to held for sale)?

Bearer plants

93 Bearer plants include grape vines and fruit trees.

Current practice

94 Stakeholders consulted to date noted cost is used to measure bearer plants.

Discussion

95 Many bearer plants are unlikely to have an observable market price on their own because they can only be sold while attached to the land. Many stakeholders noted that a current value approach would be onerous for many types of long-lived assets.

96 Even when market prices are readily available, some stakeholders noted that determining current value is not necessarily simple, can result in a financial burden and require significant effort because information on quantity and quality is needed. A number of practitioners noted that hay provides a good illustration of the issues with a current value approach for bearer plants. As a perennial plant, a hay field is productive for a number of years. In most years, a field can yield several cuts of hay; however, there are some years when the number of harvests is lower or higher. In any year, each harvest can, and often does, have different quality characteristics. The market price for hay can vary from year to year depending on how the harvest was in other areas and in some cases the market is illiquid. A current value approach would need to incorporate all these variables. While various assumptions could be made, computing current value would take significant effort. Similar valuation issues would arise for an orchard of fruit trees or a vineyard.

97 The majority of creditors noted that they treat bearer plants as property, plant and equipment. Most practitioners consulted also noted that these assets are conceptually similar to property, plant and equipment, and that current value only makes sense in a liquidation scenario. Many stakeholders, including creditors, noted that current value is not relevant because the enterprise does not have any intention of disposing of the assets. The enterprise could not immediately realize the cash flows implied by current value while staying in the business of producing assets with the bearer plants.

98 Creditors stated that they focus on the value of the output as opposed to the value of the underlying productive assets. As a result, creditors noted that when they encounter these types of assets reported as inventory and measured at current value they adjust the value and classification.

Preliminary view

- 99 The AcSB's preliminary view is that bearer plants should be measured at cost. This view is based on the following considerations:
- (a) Creditors generally agreed that a cost approach provides better information in respect of cash flows, both from a capital expenditure perspective and understanding the operating income of an enterprise.
 - (b) Stakeholders noted that existing illustrative materials in respect of how cost might be applied to bearer plants can be applied with a reasonable financial burden and effort.

Question 12: Do you agree with the AcSB's preliminary view that bearer plants should be measured at cost? Why or why not? How would you determine cost?

Impairment

- 100 This section addresses which impairment model should be used in accounting for biological assets and agricultural produce measured at cost. For assets measured at current value (under the preliminary view set out in this Discussion Paper for agricultural produce and animals held for sale) no separate impairment test would be required.
- 101 Accounting standards for private enterprises contain several different impairment models, each applying to a different category of assets (i.e., current or long lived as discussed in paragraphs 107-111).
- 102 The primary differences between the impairment models that could be applied are:
- (a) the type of current value that the carrying amount is compared to (i.e., net realizable value for inventories and fair value for long-lived assets); and
 - (b) a one-step impairment process (for inventories) versus a two-step impairment process (for long-lived assets) is applied.
- 103 The AcSB notes that the consultations to date have not identified any issues with respect to applying the different impairment models for biological assets and agricultural produce since these same models are already used for other assets. The AcSB notes that the impairment models for inventories and long-lived assets have been in use for some time and are working appropriately.
- 104 The AcSB understands that some preparers, specifically those currently measuring these assets at cost, are currently applying the impairment models in Part II. Stakeholders consulted that have been applying this guidance did not raise impairment as an issue of concern.

- 105 The AcSB notes that some who support measuring all biological assets and agricultural produce using a current value approach think it seems contradictory to prefer a cost approach over current value and then test for impairment using current value information. However, IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063, generally results in testing for impairment on an infrequent basis, because impairment testing is only required when there is an indication of impairment.
- 106 The AcSB's preliminary view is that the impairment model (including disclosure requirements) applicable to long-lived assets would be used for bearer assets and other long-term assets (for example, timber) and the impairment model applicable to inventories would be used for current assets (see paragraphs 107-111). This view is based on the following considerations:
- (a) These impairment models have been in place for some time and are providing timely and relevant input based on when and how an enterprise expects to realize cash flows.
 - (b) Issues have not been identified on applying these models.

Question 13: Do you agree with the AcSB's preliminary view that impairment should be assessed under the models used for current and long-lived assets depending on the type of asset? Why or why not?

Presentation

- 107 The issue is classification of long-lived biological assets (for example, dairy cattle, timber, and vines) as current or long term. A few stakeholders noted a practice of presenting long-lived bearer assets as current.
- 108 The AcSB notes the following requirement in CURRENT ASSETS AND CURRENT LIABILITIES, Section 1510:
- .03 As a balance sheet classification, current assets shall include those assets ordinarily realizable within one year from the date of the balance sheet or within the normal operating cycle, when that is longer than a year. The current asset classification shall also include the current portion of future income tax assets (see INCOME TAXES, paragraphs 3465.80-.84).
- 109 The AcSB understands that the rationale for current classification is that the word "realizable" in paragraph 1510.03 is being interpreted as "being able to dispose of the asset in the current period" (i.e., that the asset might or could be sold in the current period). This interpretation is inconsistent with practice in other industries. For example, a trucking company does not classify trucks as current assets, although they could be sold in the current year. The AcSB notes that the term "ordinarily realizable" is intended to result in current classification when the asset will be, or is expected to be, realized in the current period.

- 110 Creditors consulted during the research phase stated that classification of biological assets such as milking cattle or breeding cattle as current assets is not useful, and is potentially confusing. The current/non-current distinction is an attempt at incorporating liquidity expectations into the structure of the balance sheet. Classification as a current asset usually implies that the asset is expected to be sold in the short term. This would not be the case for a dairy operation that is a going concern. An enterprise that is in the milk production business cannot sell its producing herd and remain in the milk-producing business, at least not without immediately purchasing replacement animals.
- 111 The AcSB's preliminary view is that presentation should be determined by the guidance set out in Section 1510. Milking cattle or dairy cattle would be classified as long-term assets. For other biological assets and agricultural produce, the AcSB thinks that Section 1510 provides sufficient guidance with respect to presentation.

Question 14: Do you agree with the AcSB's preliminary view that presentation should be determined by the guidance in Section 1510? Why or why not? Should specific guidance on this issue be developed?

Disclosure

- 112 The disclosure requirements in accounting standards for private enterprises were developed on the basis that financial statement users can ask for, and generally receive, additional information from an enterprise when needed. On this basis, the goal of the disclosure requirements in these standards is to provide enough information for users to understand the financial statements and be able to make informed inquiries regarding financial statement items or transactions when they require further details.
- 113 The AcSB develops disclosure requirements in standard-setting projects in the same manner as that used to develop accounting standards for private enterprises.
- 114 The AcSB currently follows the process outlined below in developing disclosure requirements:
- (a) *Step 1* — A list of disclosures is compiled from similar standards.
 - (b) *Step 2* — Financial statement users are asked what information, in addition to that provided under (a) that they would find useful.
 - (c) *Step 3* — The list developed in (a) and (b) will then be sorted into "critical" and "non-critical" categories. Information about accounting policies, risks and uncertainties, and unusual events are considered to be critical. Disclosures that are deemed to be non-critical will not be pursued unless the

financial statement users think that there is significant benefit to be had from the information or they would routinely ask for this information.

- (d) *Step 4* — The AcSB will then consider the cost of these potential disclosures (i.e., preparation costs, communication costs, specialized expertise costs and related assurance costs) to determine if any should be eliminated on cost/benefit grounds.

115 The application of this process has resulted in the AcSB's preliminary view that the following disclosures should be required:

- (a) a description of each major category of biological asset and agricultural produce including the nature of activities relating to each category;
- (b) for biological assets and agricultural produce measured at current value:
 - (i) a description of the methodology used to determine current value;
 - (ii) the total current value for each major category of asset; and
 - (iii) the aggregate gain or loss arising during the current period from the change in current value;
- (c) for biological assets and agricultural produce measured at cost:
 - (i) a description of the methodology used to determine cost;
 - (ii) the total cost for each major category of asset and for those categories that are amortized, the accumulated amortization and basis for amortization; and
 - (iii) the amount of inventories recognized as an expense for biological assets and agricultural produce classified as inventory;
- (d) for biological assets classified as property, plant and equipment, the amount of amortization charged to income for the period;
- (e) an estimate of the expected harvest date for long-term crops (for example, timber, nursery stock); and
- (f) financial risk management strategies related to biological assets and agricultural produce.

116 The objective of these disclosures is to require an enterprise to provide information that enables creditors to understand the nature of, and risks associated with, its biological assets and agricultural produce. In carrying out the process noted above, the AcSB's preliminary view is that the following disclosures should not be included because this information is beyond what is required under Sections 3031 and 3061:

- (a) a quantitative description of bearer assets (for example, size of milking or breeding herds);
- (b) a quantitative description of unharvested assets (for example, the number of acres of unharvested crops); and
- (c) a quantitative description of harvested assets, distinguishing between assets held for sale and assets held for use in operations.

117 The goal of this quantitative information would be to provide creditors with physical quantities of biological assets or agricultural produce. While creditors may wish to have this type of volumetric information, this level of detail is not required elsewhere in accounting standards for private enterprises.

118 Other disclosures in Part II may also be applicable (for example, disclosures in respect of impairment).

Question 15: Do you agree with the proposed disclosure requirements set out in paragraph 115? Why or why not? Are there any additional disclosures, including those noted in paragraph 116, that should be considered?

Question 16: Are there any other issues that are not addressed in this Discussion Paper? If so, what are they and how should they be addressed?

EFFECTS ANALYSIS

119 The AcSB is committed, as part of its due process, to evaluating the effects of proposed changes to accounting standards at each major stage in the standard setting process. Any authoritative guidance will be developed based on the needs of users of financial statements and, accordingly, it is expected that the guidance will provide useful information to these individuals. The following general effects have been noted in respect of this Discussion Paper.

120 Addressing the diversity in practice would result in increased comparability between agricultural enterprises. This benefits users of financial statements by making the financial statements of different agricultural enterprises easier to understand and would make benchmarking between agricultural enterprises easier. Providing authoritative guidance also benefits practitioners and businesses as the guidance assists them in developing suitable accounting policies. This Discussion Paper proposes some disclosures about biological assets and agricultural produce that are not required under existing accounting standards for private enterprises. Based on the disclosure objective, this information is intended to provide decision-useful information to users of financial statements on a cost effective basis.

121 Negative effects would be that, as with all accounting changes, to the extent that an enterprise changes its current accounting and reporting processes, it would have to incur the financial burden and effort of doing so. Financial costs include preparation costs, communication costs, specialized expertise costs and related assurance costs.

122 The AcSB thinks that it would not be appropriate to present a detailed effects analysis at this stage because this Discussion Paper expresses preliminary views that are subject to change. A more detailed analysis of the effects of proposed changes will be completed at a later stage of the standard-setting process, assuming the project proceeds.

Question 17: Do you agree with the effects noted in paragraphs 120-121? Why or why not? If not, what other effects should be identified and why?

**APPENDIX A
COMPARISON OF ACCOUNTING REQUIREMENTS AND PRELIMINARY VIEWS**

Asset	Predominant Canadian Practice	IFRSs	U.S. GAAP	Preliminary View
Unharvested crops	Cost	Fair value less costs to sell, except when fair value cannot be measured reliably	Cost except when it is not practicable	Cost
Agricultural produce	Net realizable value	At the point of harvest at fair value less costs to sell; after harvest at cost or net realizable value if in accordance with established practice under <i>IAS 2 Inventories</i>	At the point of harvest at cost; after harvest at cost or at sales price less estimated costs of disposal, if conditions are met	Current value when certain conditions are met and cost when those conditions are not met
Animals held for sale	Cost and net realizable value	Fair value less costs to sell, except when fair value cannot be measured reliably	Developing animals held for sale at cost; mature animals held for sale at cost or at sales price less estimated costs of disposal, if conditions are met	Current value when certain conditions are met and cost when those conditions are not met
Bearer animals	Cost and net realizable value	Fair value less costs to sell, except when fair value cannot be measured reliably	Cost	Cost
Bearer plants	Cost	Cost initially and subsequently either using a cost or revaluation model under <i>IAS 16 Property, Plant and Equipment</i>	Cost	Cost

IFRS and U.S. GAAP requirements are those in effect January 1, 2016. Measurements exclude impairment considerations (for example, lower of cost or market).

APPENDIX B

EXTRACTS FROM CPA CANADA HANDBOOK – ACCOUNTING, PART II FINANCIAL STATEMENT CONCEPTS, SECTION 1000

ELEMENTS OF FINANCIAL STATEMENTS

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Assets

- .24 Assets are economic resources controlled by an entity as a result of past transactions or events and from which future economic benefits may be obtained.
- .25 Assets have three essential characteristics:
- (a) they embody a future benefit that involves a capacity, singly or in combination with other assets, in the case of profit-oriented enterprises, to contribute directly or indirectly to future net cash flows;
 - (b) the entity can control access to the benefit; and
 - (c) the transaction or event giving rise to the entity's right to, or control of, the benefit has already occurred.
- .26 It is not essential for control of access to the benefit to be legally enforceable for a resource to be an asset, provided the entity can control its use by other means.
- .27 There is a close association between incurring expenditures and generating assets but the two do not necessarily coincide. Hence, when an entity incurs an expenditure, this may provide evidence that future economic benefits were sought but is not conclusive proof that an item satisfying the definition of an asset has been obtained. Similarly, the absence of a related expenditure does not preclude an item from satisfying the definition of an asset and thus becoming a candidate for recognition in the balance sheet. For example, items that have been donated to the entity may satisfy the definition of an asset.

...

RECOGNITION CRITERIA

- .36 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into statement totals together with a narrative description of the item (for example, "inventory" or "sales") in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.
- .37 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide

information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

- .38 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether any particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.
- .39 The recognition criteria are as follows:
 - (a) the item has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and
 - (b) for items involving obtaining or giving up future economic benefits, it is probable that such benefits will be obtained or given up.
- .40 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not probable that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. Not recognizing an expenditure as an asset does not imply either that the intention of management in incurring the expenditure was other than to generate future economic benefits for the entity or that management was misguided. The only implication is that the degree of certainty that economic benefits will flow to the entity beyond the current accounting period is insufficient to warrant the recognition of an asset.
- .41 Items recognized in financial statements are accounted for in accordance with the accrual basis of accounting. The accrual basis of accounting recognizes the effect of transactions and events in the period in which the transactions and events occur, regardless of whether there has been a receipt or payment of cash or its equivalent.

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MEASUREMENT

- .48 Measurement is the process of determining the amount at which an item is recognized in the financial statements. There are a number of bases on which an amount can be measured. However, financial statements are prepared primarily using the historical cost basis of measurement whereby transactions and events are recognized in financial statements at the amount of cash or cash equivalents paid or received or the fair value ascribed to them when they took place.

.49 Other bases of measurement are also used but only in limited circumstances. They include:

- (a) Replacement cost — the amount that would be needed currently to acquire an equivalent asset. This may be used, for example, when inventories are valued at the lower of historical cost and replacement cost.
- (b) Realizable value — the amount that would be received by selling an asset. This may be used, for example, to value temporary and portfolio investments. Market value may be used to estimate realizable value when a market for an asset exists.
- (c) Present value — the discounted amount of future cash flows expected to be received from an asset or required to settle a liability. This may be used, for example, to estimate the cost of pension benefits.

INVENTORIES, Section 3031

PURPOSE AND SCOPE

.01 This Section prescribes the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized. This Section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

...

.04 This Section does not apply to the measurement of inventories:

- (a) held by producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realizable value in accordance with well-established practices in those industries; when such inventories are measured at net realizable value, changes in that value are recognized in net income in the period of the change;
- (b) held by commodity broker-traders who measure their inventories at fair value less costs to sell; when such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognized in net income in the period of the change;
- (c) of living animals and plants (biological assets) and the harvested product of the entity's biological assets (agricultural produce). This Section does apply to products that are the result of processing after harvest such as processed foods, thread and lumber.

- .05 The inventories referred to in paragraph 3031.04(a) are measured at net realizable value at certain stages of production. For example, this occurs when agricultural crops have been harvested or minerals have been extracted and sale is assured under a forward contract or a government guarantee, or when an active market exists and there is a negligible risk of failure to sell. These inventories are excluded from only the measurement requirements of this Section.
- .06 Broker-traders are those who buy or sell commodities for others or on their own account. The inventories referred to in paragraph 3031.04(b) are principally acquired with the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin. When these inventories are measured at fair value less costs to sell, they are excluded from only the measurement requirements of this Section.

DEFINITIONS

- .07 The following terms are used in this Section with the meanings specified:
- (a) **Inventories** are assets:
 - (i) held for sale in the ordinary course of business;
 - (ii) in the process of production for such sale; or
 - (iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services.
 - (b) **Net realizable value** is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.
 - (c) **Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.
- .08 Net realizable value refers to the net amount that an entity expects to realize from the sale of inventory in the ordinary course of business. Fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace. The former is an entity-specific value; the latter is not. Net realizable value for inventories may not equal fair value less costs to sell.
- .09 Inventories encompass goods purchased and held for resale (for example, merchandise purchased by a retailer and held for resale, or land and other property held for resale). Inventories also encompass finished goods produced, or work in progress being produced, by the entity and include materials and supplies awaiting use in the production process.

MEASUREMENT OF INVENTORIES

.10 *Inventories shall be measured at the lower of cost and net realizable value.*

Cost of inventories

.11 *The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.*

Costs of purchase

.12 The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Costs of conversion

.13 The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.

.14 The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognized as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

.15 A production process may result in more than one product being produced simultaneously. For example, this is the case when joint products are produced or when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, they are allocated between the

products on a rational and consistent basis. For example, the allocation may be based on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products are immaterial. When this is the case, they are often measured at net realizable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

Other costs

- .16 Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.
- .17 Examples of costs excluded from the cost of inventories and recognized as expenses in the period in which they are incurred are:
 - (a) abnormal amounts of wasted materials, labour or other production costs;
 - (b) storage costs, unless those costs are necessary in the production process before a further production stage;
 - (c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and
 - (d) selling costs.
- .18 The cost of inventories that require a substantial period of time to get them ready for their intended use or sale includes interest costs when the enterprise's accounting policy is to capitalize interest costs. The cost of inventories that are ready for their intended use or sale when acquired does not include interest costs.
- .19 An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognized as interest expense over the period of the financing.

Techniques for the measurement of cost

- .20 Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilization. They are regularly reviewed and, if necessary, revised in the light of current conditions.

.21 The retail method is often used in the retail industry for measuring inventories of large numbers of rapidly changing items with similar margins for which it is impracticable to use other costing methods. The cost of the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin. The percentage used takes into consideration inventory that has been marked down to below its original selling price. An average percentage for each retail department is often used.

Cost formulas

.22 *The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs.*

.23 Specific identification of cost means that specific costs are attributed to identified items of inventory. This is the appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced. However, specific identification of costs is inappropriate when there are large numbers of items of inventory that are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on net income.

.24 *The cost of inventories, other than those dealt with in paragraph 3031.22, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.*

.25 Inventories used in one business segment may have a use to the entity different from the same type of inventories used in another business segment. However, a difference in geographical location of inventories (or in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.

.26 The FIFO formula assumes that the items of inventory that were purchased or produced first are sold first and, consequently, the items remaining in inventory at the end of the period are those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.

Net realizable value

.27 The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have

declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The practice of writing inventories down below cost to net realizable value is consistent with the view that assets are not carried in excess of amounts expected to be realized from their sale or use.

- .28 Inventories are usually written down to net realizable value item by item. However, in some circumstances, it may be appropriate to group similar or related items. This may be the case with items of inventory relating to the same product line that have similar purposes or end uses, are produced and marketed in the same geographical area, and cannot be practicably evaluated separately from other items in that product line. It is not appropriate to write inventories down on the basis of a classification of inventory (for example, finished goods, or all the inventories in a particular industry or geographical segment).
- .29 Estimates of net realizable value are based on the most reliable evidence available, at the time the estimates are made, of the amount the inventories are expected to realize. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.
- .30 Estimates of net realizable value also take into consideration the purpose for which the inventory is held. For example, the net realizable value of the quantity of inventory held to satisfy firm sales contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realizable value of the excess is based on general selling prices. Provisions may arise from firm sales contracts in excess of inventory quantities held or from firm purchase contracts.
- .31 Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realizable value, the materials are written down to best available measure of their net realizable value.
- .32 A new assessment is made of net realizable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (i.e., the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realizable value. For example, this occurs when an item of inventory that is

carried at net realizable value, because its selling price has declined, is still on hand in a subsequent period and its selling price has increased.

...

DISCLOSURE

.35 *The financial statements shall disclose:*

(a) *the accounting policies adopted in measuring inventories, including the cost formula used;*

(b) *the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity; and*

(c) *the amount of inventories recognized as an expense during the period.*

.36 Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work in progress and finished goods.

.37 The amount of inventories recognized as an expense during the period, which is often referred to as cost of sales, consists of those costs previously included in the measurement of inventory that has now been sold and unallocated production overheads and abnormal amounts of production costs of inventories. The circumstances of the entity may also warrant the inclusion of other amounts, such as distribution costs.

.38 Some entities adopt a format for the income statement that results in amounts being disclosed other than the cost of inventories recognized as an expense during the period. Under this format, an entity presents an analysis of expenses using a classification based on the nature of expenses. In this case, the entity discloses the costs recognized as an expense for raw materials and consumables, labour costs and other costs together with the amount of the net change in inventories for the period.

PROPERTY, PLANT AND EQUIPMENT, Section 3061

DEFINITIONS

.03 The following terms are used in this Section with the meanings specified:

(a) **Property, plant and equipment** are identifiable tangible assets that meet all of the following criteria:

(i) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other property, plant and equipment;

- (ii) have been acquired, constructed or developed with the intention of being used on a continuing basis; and
- (iii) are not intended for sale in the ordinary course of business.

Spare parts and servicing equipment are usually carried as inventory and recognized in net income as consumed. However, major spare parts and standby equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment. Property, plant and equipment and intangible assets, as defined in GOODWILL AND INTANGIBLE ASSETS, paragraph 3064.08, are referred to collectively as "capital assets".

...

MEASUREMENT

Cost

- .04 *Property, plant and equipment shall be recorded at cost.*
- .05 The cost of an item of property, plant and equipment includes the purchase price and other acquisition costs such as option costs when an option is exercised, brokers' commissions, installation costs including architectural, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs, duties, testing and preparation charges. In addition, if the cost of the asset acquired other than through a business combination is different from its tax basis on acquisition, the asset's cost would be adjusted to reflect the related future income tax consequences (see INCOME TAXES, Section 3465). It may be appropriate to group together individually insignificant items of property, plant and equipment.
- .06 The cost of each item of property, plant and equipment acquired as part of a basket purchase (i.e., when a group of assets is acquired for a single amount), is determined by allocating the price paid for the basket to each item on the basis of its relative fair value at the time of acquisition.
- .07 When, at the time of acquisition, a portion of the acquired item of property, plant and equipment meets the criteria in DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475, to be classified as held for sale at the acquisition date, that portion of the item is measured at fair value less cost to sell. The remainder of the acquired item is measured at the cost of acquisition of the entire item less the amount assigned to the portion to be sold. For example, if a portion of land acquired is to be resold, the cost of the land to be retained would be the total cost of the purchase minus the fair value less cost to sell of the portion of land held for sale. When, at the time of acquisition, a portion of the acquired item of

property, plant and equipment is not intended for use because it will be abandoned, its cost and any costs of disposal, net of any estimated proceeds, are attributed to that portion of the acquired asset that is intended for use. For example, the cost of acquired land that includes a building that will be demolished comprises the cost of the acquired property and the cost of demolishing the building.

Acquisition, construction or development over time

- .08 The cost of an item of property, plant and equipment includes direct construction or development costs (such as materials and labour), and overhead costs directly attributable to the construction or development activity.
- .09 For a mining property, the cost of the asset includes exploration costs if the enterprise considers that such costs have the characteristics of property, plant and equipment. An enterprise applies the method of accounting for exploration costs that it considers to be appropriate to its operations and applies the method consistently to all its properties.
- .10 For an oil and gas property, the cost of the asset comprises acquisition costs, development costs and certain exploration costs depending on whether the enterprise accounts for its oil and gas properties using the full cost method or the successful efforts method. An enterprise applies the method of accounting for acquisition, exploration and development costs that it considers to be appropriate to its operations and applies the method consistently to all its properties.
- .11 The cost of an item of property, plant and equipment that is acquired, constructed, or developed over time includes carrying costs directly attributable to the acquisition, construction, or development activity (such as interest costs when the enterprise's accounting policy is to capitalize interest costs.) For an item of rate-regulated property, plant and equipment, the cost includes the directly attributable allowance for funds used during construction allowed by the regulator.
- .12 Capitalization of carrying costs ceases when an item of property, plant and equipment is substantially complete and ready for productive use. Determining when an asset, or a portion thereof, is substantially complete and ready for productive use requires consideration of the circumstances and the industry in which it is to be operated. Normally, it would be predetermined by management with reference to such factors as productive capacity, occupancy level, or the passage of time.
- .13 Net revenue or expense derived from an item of property, plant and equipment prior to substantial completion and readiness for use is included in the cost.

Betterment

- .14 The cost incurred to enhance the service potential of an item of property, plant and equipment is a betterment. Service potential may be enhanced when there is an

increase in the previously assessed physical output or service capacity, associated operating costs are lowered, the life or useful life is extended, or the quality of output is improved. The cost incurred in the maintenance of the service potential of an item of property, plant and equipment is a repair, not a betterment. If a cost has the attributes of both a repair and a betterment, the portion considered to be a betterment is included in the cost of the asset.

- .15 A redevelopment project that adds significant economic value to rental real estate is treated as a betterment. When a building is removed for the purpose of redevelopment of rental real estate, the net carrying amount of the building is included in the cost of the redeveloped property, as long as the net amount considered recoverable from the redevelopment project exceeds its cost.

Amortization

- .16 *Amortization shall be recognized in a rational and systematic manner appropriate to the nature of an item of property, plant and equipment with a limited life and its use by the enterprise. The amount of amortization that shall be charged to income is the greater of:*

(a) the cost less salvage value over the life of the asset; and

(b) the cost less residual value over the useful life of the asset.

- .17 Property, plant and equipment is acquired to earn income or supply a service over its useful life. An item of property, plant and equipment, other than land that normally has an unlimited life, has a limited life. Its useful life is normally the shortest of its physical, technological, commercial and legal life. Amortization is the charge to income that recognizes that life is finite and that the cost less salvage value or residual value of an item of property, plant and equipment is allocated to the periods of service provided by the asset. Amortization may also be termed depreciation or depletion.
- .18 The cost of an item of property, plant and equipment made up of significant separable component parts is allocated to the component parts when practicable and when estimates can be made of the lives of the separate components. For example, initial leasing costs may be identifiable as a separable component of the cost of rental real estate and engines may be a separable component of an aircraft.
- .19 Different methods of amortizing an item of property, plant and equipment result in different patterns of charges to income. The objective is to provide a rational and systematic basis for allocating the amortizable amount of an item of property, plant and equipment over its estimated life and useful life. A straight-line method reflects a constant charge for the service as a function of time. A variable charge method reflects service as a function of usage. Other methods may be appropriate in certain situations. For example, an increasing charge method may be used when an enterprise can price its goods or services so as to obtain a constant rate of return

on the investment in the asset; a decreasing charge method may be appropriate when the operating efficiency of the asset declines over time.

- .20 Factors to be considered in estimating the life and useful life of an item of property, plant and equipment include expected future usage, effects of technological or commercial obsolescence, expected wear and tear from use or the passage of time, the maintenance program, results of studies made regarding the industry, studies of similar items retired, and the condition of existing comparable items. As the estimate of the life of an item of property, plant and equipment is extended into the future, it becomes increasingly difficult to identify a reasonable basis for estimating the life.

...

DISCLOSURE

- .24 *For each major category of property, plant and equipment there shall be disclosure of:*
- (a) cost;*
 - (b) accumulated amortization, including the amount of any write-downs; and*
 - (c) the amortization method used, including the amortization period or rate.*
- .25 *The net carrying amount of property, plant and equipment not being amortized, because it is under construction or development, or has been removed from service for an extended period of time, shall be disclosed.* [Former paragraph 3061.25 retained in archived pronouncements.]
- .26 *The amount of amortization of property, plant and equipment charged to income for the period shall be disclosed* (see INCOME STATEMENT, Section 1520). [Former paragraph 3061.26 retained in archived pronouncements.]
- .27 The presentation and disclosure requirements of IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063, and DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475, apply to property, plant and equipment.
- .28 Major categories of property, plant and equipment are determined by reference to type (for example, land, buildings, machinery, leasehold improvements), operating segment and/or nature of operations (for example, manufacturing, processing, distribution, rental real estate).

APPENDIX C

EXTRACTS FROM CPA CANADA HANDBOOK – ACCOUNTING, PART I

IAS 2 *Inventories*

Scope

2 This Standard applies to all inventories, except:

...

(c) biological assets related to agricultural activity and agricultural produce at the point of harvest (see IAS 41 *Agriculture*).

3 This Standard does not apply to the measurement of inventories held by:

(a) producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realisable value in accordance with well-established practices in those industries. When such inventories are measured at net realisable value, changes in that value are recognised in profit or loss in the period of the change.

...

4 The inventories referred to in paragraph 3(a) are measured at net realisable value at certain stages of production. This occurs, for example, when agricultural crops have been harvested or minerals have been extracted and sale is assured under a forward contract or a government guarantee, or when an active market exists and there is a negligible risk of failure to sell. These inventories are excluded from only the measurement requirements of this Standard.

IAS 41 *Agriculture*

Scope

- 1 This Standard shall be applied to account for the following when they relate to agricultural activity:
 - (a) biological assets, except for bearer plants;
 - (b) agricultural produce at the point of harvest; and
 - (c) government grants covered by paragraphs 34 and 35.
- 2 This Standard does not apply to:
 - (a) land related to agricultural activity (see IAS 16 *Property, Plant and Equipment* and IAS 40 *Investment Property*).
 - (b) bearer plants related to agricultural activity (see IAS 16). However, this Standard applies to the produce on those bearer plants.
 - (c) government grants related to bearer plants (see IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*).
 - (d) intangible assets related to agricultural activity (see IAS 38 *Intangible Assets*).
- 3 This Standard is applied to agricultural produce, which is the harvested produce of the entity's biological assets, at the point of harvest. Thereafter, IAS 2 *Inventories* or another applicable Standard is applied. Accordingly, this Standard does not deal with the processing of agricultural produce after harvest; for example, the processing of grapes into wine by a vintner who has grown the grapes. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in this Standard.
- 4 The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Sheep	Wool	Yarn, carpet
Trees in a timber plantation	Felled trees	Logs, lumber
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Cotton plants	Harvested cotton	Thread, clothing
Sugarcane	Harvested cane	Sugar
Tobacco plants	Picked leaves	Cured tobacco
Tea bushes	Picked leaves	Tea
Grape vines	Picked grapes	Wine
Fruit trees	Picked fruit	Processed fruit
Oil palms	Picked fruit	Palm oil
Rubber trees	Harvested latex	Rubber products
<p>Some plants, for example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are within the scope of IAS 16. However, the produce growing on bearer plants, for example, tea leaves, grapes, oil palm fruit and latex, is within the scope of IAS 41.</p>		

Definitions

Agriculture-related definitions

5 The following terms are used in this Standard with the meanings specified:

Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.

Agricultural produce is the harvested produce of the entity's biological assets.

A bearer plant is a living plant that:

- (a) is used in the production or supply of agricultural produce;
- (b) is expected to bear produce for more than one period; and
- (c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

A biological asset is a living animal or plant.

Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.

Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes.

A group of biological assets is an aggregation of similar living animals or plants.

Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.

- 5A The following are not bearer plants:
- (a) plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);
 - (b) plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated both for their fruit and their lumber); and
 - (c) annual crops (for example, maize and wheat).
- 5B When bearer plants are no longer used to bear produce they might be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant.
- 5C Produce growing on bearer plants is a biological asset.
- 6 Agricultural activity covers a diverse range of activities; for example, raising livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, floriculture and aquaculture (including fish farming). Certain common features exist within this diversity:
- (a) *Capability to change*. Living animals and plants are capable of biological transformation;
 - (b) *Management of change*. Management facilitates biological transformation by enhancing, or at least stabilising, conditions necessary for the process to take place (for example, nutrient levels, moisture, temperature, fertility, and light). Such management distinguishes agricultural activity from other activities. For example, harvesting from unmanaged sources (such as ocean fishing and deforestation) is not agricultural activity; and
 - (c) *Measurement of change*. The change in quality (for example, genetic merit, density, ripeness, fat cover, protein content, and fibre strength) or quantity (for example, progeny, weight, cubic metres, fibre length or diameter, and number of buds) brought about by biological transformation or harvest is measured and monitored as a routine management function.

- 7 Biological transformation results in the following types of outcomes:
- (a) asset changes through (i) growth (an increase in quantity or improvement in quality of an animal or plant), (ii) degeneration (a decrease in the quantity or deterioration in quality of an animal or plant), or (iii) procreation (creation of additional living animals or plants); or
 - (b) production of agricultural produce such as latex, tea leaf, wool, and milk.

...

- 12 A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case described in paragraph 30 where the fair value cannot be measured reliably.**

...

Inability to measure fair value reliably

- 30 There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell. Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, it is presumed that fair value can be measured reliably.**
- 31 The presumption in paragraph 30 can be rebutted only on initial recognition. An entity that has previously measured a biological asset at its fair value less costs to sell continues to measure the biological asset at its fair value less costs to sell until disposal.

Appendix D

Extracts from FASB Accounting Standards Codification

Topic 905, *Agriculture*

Inventory

905-330-25 Recognition

25-1 All indirect and direct costs of growing crops shall be accumulated until the time of harvest. Some crop costs, such as soil preparation, are incurred before planting and shall be deferred and allocated to the growing crop.

905-330-30 Initial measurement

30-1 Exceptional cases exist in which it is not practicable to determine an appropriate cost basis for products. A market basis is acceptable if the products meet all of the following criteria:

- (a) They have immediate marketability at quoted market prices that cannot be influenced by the producer.
- (b) They have characteristics of unit interchangeability.
- (c) They have relatively insignificant costs of disposal.

The accounting basis of those kinds of inventories shall be their realizable value, calculated on the basis of quoted market prices less estimated direct costs of disposal. An example is freshly dressed meats produced in meat packing operations.

905-330-35 Subsequent Measurement

35-1 Cost of growing crops shall be accumulated until the time of harvest. Growing crops shall be reported at the lower of cost or market.

35-2 Developing animals to be held for sale shall be valued at the lower of cost or market.

35-3 Animals held for sale shall be valued at either of the following:

- (a) The lower of cost or market.
- (b) At sales price less estimated costs of disposal, if all the following conditions exist:
 - 1. The product has a reliable, readily determinable, and realizable market price.
 - 2. The product has relatively insignificant and predictable costs of disposal.
 - 3. The product is available for immediate delivery.

35-4 Inventories of harvested crops shall be valued using the same criteria as animals held for sale in the preceding paragraph.

Property, Plant and Equipment

905-360-25 Recognition

25-2 Trees and vines may be planted and brought to production by the producer or on a contract basis. The young trees and vines are usually purchased as nursery stock and transplanted into the orchard or vineyard in the desired pattern. Cultural costs during the development period, including stakes and wires, grafting and labor for pruning and forming, shall be capitalized. Net proceeds from sales of products before commercial production begins shall be applied to the capitalized cost of the plants, trees, or vines.

905-360-30 Initial Measurement

30-1 All direct and indirect costs of developing animals shall be accumulated until the animals reach maturity and are transferred to a productive function. All direct and indirect development costs of animals raised for sale shall be accumulated, and the animals shall be accounted for at the lower of cost and market until they are available for sale.

905-360-35 Subsequent Measurement

35-2 At the point that breeding and production animals reach maturity and are transferred to a productive function, the accumulated development costs recognized under paragraph 905-360-25-4, less any estimated salvage value, shall be depreciated over their useful lives. Immature animals shall not be considered to be in service until they reach maturity, at which time their accumulated costs recognized under paragraph 905-360-25-4 shall become subject to depreciation.

...

35-4 When production of commercial quantities begins, the accumulated costs shall be depreciated over the estimated useful life of the particular orchard, vineyard, or grove.

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